BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 90-204-G - ORDER NO. 90-729

AUGUST 8, 1990

IN RE:	Application of South Carolina Pipeline Corporation for a Rate Reduction and Adjustments in its Gas Rate Schedules and Tariffs and Terms and Conditions, and Restructuring of Contracts.	ORDER

I.

INTRODUCTION

On March 5, 1990, South Carolina Pipeline Corporation (Pipeline) filed an application with the Public Service Commission of South Carolina (the Commission) requesting approval of a reduction in rates to its sale-for-resale customers. Pipeline also requested an interim rate reduction applicable to sale-for-resale customers to be effective for gas sales made on or after March 1, 1990. The application further requested approval of a process for the restructuring of Pipeline's contracts with its sale-for-resale customers; a revised purchased gas recovery procedure; a two-part demand and commodity rate for sale-for-resale customers; a firm transportation tariff applicable to sale-for-resale customers; a peaking capacity transfer service; a contract reassignment service; and elimination of its distributor peaking service tariff. The application was filed under Section 58-5-240 of the Code of Laws of South Carolina, 1976, as amended.

By Order No. 90-334, dated March 27, 1990, the Commission granted Pipeline's request for an interim rate reduction and reduced rates for sale-for-resale customers were put in force on an interim basis.

A hearing on permanent rates and the other matters raised in this application as well as other matters raised by the Intervenors was held before the Commission beginning on May 1, 1990. The hearing concluded on May 3, 1990. The City of Orangeburg, Lancaster County Natural Gas Authority, York County Natural Gas Authority, Chester County Natural Gas Authority, Peoples Natural Gas Company of South Carolina, South Carolina Electric & Gas Company, the South Carolina Energy Users Committee (SCEUC), the South Carolina Consumer Advocate, Nucor Steel Corporation, and Westvaco Corporation intervened in the proceedings. Those parties, with the exception of Westvaco, appeared by counsel at the hearing as did South Carolina Pipeline Corporation and the Commission Staff.

The Commission's findings of fact, evidence supporting those findings, and conclusions of law are set forth below for each issue raised in this proceeding.

II.

ISSUES RAISED IN THE APPLICATION

A. Revised Rates and Rate Structures for Sale-for-Resale Customers

1. Gas Cost Recovery Demand/Commodity Rates

South Carolina Pipeline Corporation presently prices gas sold to resale customers using a single commodity rate. This rate is volumetric. Customers pay in direct proportion to the amount of gas they use.

Pipeline's single commodity rate for resale customers is set according to Pipeline's weighted average cost of gas (WACOG) for each month plus the Commission approved margin or other charge applicable to the class of service provided. Pipeline's gas costs as included in the present WACOG are composed of two principal elements. Commodity costs are the volumetric charges that Pipeline pays for each unit of gas purchased. In addition, Pipeline pays demand charges and other nonvolumetric charges to its interstate suppliers to obtain guaranteed supplies of natural gas from those suppliers. Those guaranteed or "firm" supplies of gas are necessary for Pipeline to meet its obligations under its firm supply contracts with its customers.

The present WACOG includes all gas supply costs incurred by Pipeline, including monthly demand charges and other noncommodity related charges imposed on it by its interstate gas suppliers. Pipeline has asked the Commission for approval to bill its resale customers separately for demand and commodity charges.

Under this proposal, the commodity charges that Pipeline must pay to obtain gas supplies would still be recovered through the WACOG. Demand charges would be removed from the WACOG and recovered through a new and separate demand charge. That charge would be referred to as a Cost of Gas Demand Charge.

This Cost of Gas Demand Charge would be computed on a monthly basis. To calculate it, Pipeline's total demand charges would be divided among Pipeline's customers in proportion to the size of each customer's firm contract with Pipeline. Each firm customer would then pay these separate monthly demand charges based on the maximum daily quantity of gas guaranteed to that customer in its contract with Pipeline. The effect of this change would be to remove demand charges from the WACOG and to bill them separately.

The Company proposed this new gas cost recovery procedure to reflect current conditions in the natural gas market. Pipeline's predecessor company used a separate demand and commodity rate structure from 1957 until 1976. In the mid-1970's, serious gas shortages arose and customers often were curtailed below their maximum daily quantities. Under those circumstances, it was fair and equitable for demand charges and other fixed charges to be recovered from customers according to the amount of gas they actually were able to purchase. In present market circumstances, however, adequate gas supplies are generally available. Under these circumstances, a single commodity rate can allow some customers to escape paying their fair share of Pipeline's fixed gas costs.

Under the present rate structure, fixed charges and demand charges are recovered from customers purely in proportion to the amount of gas a customer purchases over the course of a year. A customer with a high maximum daily quantity might purchase very little gas during summer months and periods other than peak days. Pipeline would have to incur all the fixed costs and demand charges required to ensure that customer's maximum daily quantity can be met on peak winter days. But the customer would pay very little to defray those costs because of its low level of annual purchases. Accordingly, such a "low load factor" customer would not pay its fair share of the fixed costs related to the high maximum daily quantity it has required Pipeline to guarantee for it.

By the same token, under the present system a customer has no economic incentive to ensure that its maximum daily quantities are nominated at a reasonable level. The customer is not paying for the additional guarantees of firm service. A customer with an inflated maximum daily guarantee has no incentive to reduce it.

The Commission finds, based on the testimony of Pipeline and the Commission Staff, that the proposed demand commodity rate structure will more fairly allocate the burden of Pipeline's nonvolumetric gas supply costs according to customers' responsibility for the incurring of those costs. It will create incentives which now are lacking for customers to hold their firm contract demands to reasonable levels. For those reasons, the Commission finds that it is just and reasonable for customers to pay fixed costs and demand charges through a separate demand charge based on their nominated maximum daily quantities. In order to ensure that Pipeline only recovers actual demand charges imposed by its suppliers each month, Pipeline is hereby ordered to maintain documentation in sufficient detail to enable the Commission to make this determination. Pipeline will further be required to submit to the Commission, on a monthly basis, the calculations used to derive the demand and commodity charges to be billed its customers.

2. Cost of Service Rates Based on Modified Fixed Variable Rate Making Methodologies

Pipeline also seeks Commission approval to use a Modified Fixed Variable rate structure to recover its revenue requirements other than gas supply costs. Under the Modified Fixed Variable methodology, the Company recovers its revenue requirements related to fixed costs--with the exception of its return and associated income taxes--through a monthly demand charge. That charge would be based on the maximum daily quantity under the customer's contract and would be called a Cost of Service Demand Charge.

Under the Modified Fixed Variable methodology, the Company would recover its revenue requirements related to its variable costs, return, and associated income taxes through a commodity charge applicable to each dekatherm of gas sold. This charge would be called a Cost of Service Commodity Charge.

The Modified Fixed Variable rate structure which Pipeline proposes is a structure which is widely used in the natural gas industry. It segregates fixed and variable costs and assigns them to the customers according to their responsibility for those costs being incurred. The Commission finds that by requiring the Company to recover its return and associated income taxes through a commodity charge, it would create incentives for the Company to increase throughput by lowering gas costs. There is no testimony in the record in opposition to Pipeline's proposed new rate structure. Based on the evidence set forth above, the Commission finds that a two part demand/commodity rate structure, employing the modified fixed variable methodology, when applied to South Carolina Pipeline Corporation, will result in rates that are just and reasonable.

3. Sale-for-Resale Rates

South Carolina Pipeline Corporation proposes a Cost of Service Commodity Charge of 7.53 cents per dekatherm applicable to all firm sales to resale customers, interruptible sales to resale customers, and firm transportation service to resale customers. In addition, Pipeline proposes to charge a Cost of Service Demand Charge adequate to collect the sum of $10,280,002 per year. The Cost of Service Demand Charge would apply on a per dekatherm basis to each customer's maximum daily quantity and firm transportation contracts.

As discussed below, Pipeline is proposing that its resale customers be allowed to renominate their maximum daily quantities in light of the new rate structure proposed here. As a result, the total of firm demand on Pipeline's system may rise or fall depending on the amounts renominated. It is not possible, therefore, to accurately convert the $10,280,002 revenue requirement into a per dekatherm charge until renegotiation is complete.

The rates and revenue that Pipeline propose here were designed to result in a revenue reduction agreed to by Pipeline and the Consumer Advocate. The Consumer Advocate had been a moving party in a previous docket, Docket No. 88-220-G, seeking a reduction in Pipeline's rates. In response, Pipeline initiated Docket No. 89-372-G, requesting a $1.9 million dollar increase in its rates to sale-for-resale customers. Pursuant to a negotiated settlement with the Consumer Advocate, Pipeline withdrew its application for the revenue increase and agreed to a $300,000 per year reduction in its current rates to sale-for-resale customers.

Witnesses for Pipeline and the Commission Staff presented testimony and exhibits to verify that the rates and revenue being proposed by the Company would result in an annual revenue reduction of $300,000 based on sales during calendar year 1988.

The Commission finds that the proposed commodity charge of 7.53¢ and a demand charge, which will produce annual revenues of $10,280,002, will result in the annual revenue reduction of $300,000 as agreed to by the Consumer Advocate and Pipeline. The Commission has previously found that the demand and commodity rate design is fair and reasonable and hereby approves the charges and revenue proposed by Pipeline.

5. Effective Date of Rates

At the request of certain resale customers, Pipeline has asked the Commission to delay the effective date of these new rates until November 1, 1990. The reason for this request is to prevent unnecessary economic hardship for sale-for-resale customers. Many of these customers sell relatively little gas during the summer months. They would prefer not to have to begin paying fixed monthly demand charges until the winter months when they can begin to collect revenues, and to set aside reserves, to meet these fixed payments. The Commission finds that it is proper to make the effective date of these rates for service rendered on and after November 1, 1990.

6. Recontracting

As stated above, the Commission finds that one of the principal advantages of a demand commodity rate structure is the discipline that it provides in the denomination of maximum daily quantities by Pipeline's firm customers. Under the present commodity-only rate structure, there is no economic incentive for a firm customer to limit its contract demand with Pipeline. Regardless of the size of the contract demand, the customer pays only the commodity rate for gas that it takes.

Pipeline is presently involved in negotiations with its interstate pipeline suppliers to restructure its maximum daily quantities. The demand charges Pipeline pays these suppliers are dependent upon the size of the maximum daily quantities for which Pipeline contracts. Any reduction in those amounts will reduce Pipeline's costs. The quantities for which Pipeline contracts principally depend on the maximum daily quantities for which

Pipeline's resale customers contract on Pipeline's system.

Pipeline has requested that its sale-for-resale customers renominate their contract demands and enter into new contracts with Pipeline for a 10 year term. To the extent gas supplies and pipeline capacity allow, Pipeline should allow customers to increase their quantities to meet demand increases during this 10 year period. The Commission finds that a ten year period is a reasonable period for customers to use as a reference point in renominating their maximum daily quantities. The Commission finds, based on the evidence in the record, that it is just and reasonable, and in the public interest, that renomination on the terms Pipeline has proposed be undertaken.

Pipeline further requests a two-stage renomination process. The demand charge per dekatherm of the maximum daily quantity a customer nominates will rise or fall depending upon the total amount of firm demand that is renominated on Pipeline's system as part of this process. To account for this, the Commission orders a two-stage renomination procedure.

The Commission finds that all firm customers, both industrial and sale-for-resale, should be required to nominate their contract demands to ensure fairness of the gas cost demand charge recovery and to ensure an accurate renomination of contract demands with interstate suppliers.

All customers are required to nominate their new contract demands by specifying those demands, in writing, to Pipeline within 45 days of the date of this order. Pipeline is ordered to recalculate its demand charges for sale-for-resale customers based on this initial round of nominations. Pipeline is further ordered to supply its sale-for-resale customers with the resulting demand charges within 70 days of the date of this order. Its customers are then required to provide their final nominations to Pipeline within 90 days of the date of this order. The cost of service demand charge applicable to firm sales service for sale-for-resale customers shall be derived as follows:

$$\text{DFT Demand Charge} + \frac{\text{\$ Peaking \& Storage Demand Requirement}}{\text{(12 months) (DS-1 Maximum Daily Quantity)}} = \text{DS-1 Demand Charge}$$

7. Miscellaneous Issues Related to Rate Restructuring

The rate restructuring proposed by Pipeline will also require several miscellaneous changes in Pipeline's rates and tariffs. Inasmuch as demand charges will no longer be included in the WACOG, the methodology for computing the WACOG, as set forth in Pipeline's tariffs, must be amended. Furthermore, the provisions of the present tariff for computing overrun penalties must be revised to reflect the fact that demand and commodity rates are now separately billed.

The Commission finds that these proposed changes are required to bring Pipeline's tariffs into conformity with the demand commodity rate structure approved above.

The Consumer Advocate stated in its brief that this proceeding had the primary objective of reducing rates and was therefore not a proper proceeding to accomplish major rate restructuring. In

Pipeline's March 5, 1990, rate reduction application, Pipeline gave notice that it was also requesting a restructure of its rates. The Commission set a hearing on May 3, 1990, to address the issues raised in the application as well as other issues raised by the Intervenors. None of the intervenors objected to the issue of restructuring of rates being addressed at the May 3, 1990, hearing. The Commission finds that it was appropriate to address the issue of rate restructuring along with the issue of rate reduction at the May 3, 1990, hearing and there was adequate notice to the parties that the rate restructuring issue would be addressed.

The Consumer Advocate in his Brief also indicates that Pipeline witness Harris, in testimony filed in Docket No. 88-220-G, stated that only 50% of the demand charge revenue should be recovered from the sale-for-resale customers while the Company's response to Consumer Advocate Data Request 1-2 in this proceeding indicates that virtually all the demand charges are assigned to the sale-for-resale customers. Even though the testimony referenced by the Consumer Advocate is not in the record of this proceeding, the Commission believes that it should clarify this issue. Mr. Harris stated that 50% of the revenue from the sale-for-resale operation will be recovered through the cost of service demand charge. The Consumer Advocate seems to interpret Mr. Harris' testimony to indicate that 50% of the total company revenue would be recovered from the sale-for-resale customers through the demand charge. The Consumer Advocate misunderstands this testimony. It is logical that most of the cost of service demand charges would be recovered from the sale-for-resale customers since most of the firm customers are sale-for-resale customers as indicated in Mr. Kightlinger's Exhibit No. (RMK-2), page 2 of 13.

B. Elimination of Distributor Peaking Service Tariff, Rate Schedule DPS-1

Under Rate Schedule DPS-1, sale-for-resale customers buying gas under the DS-1 rate schedule may execute a supplemental service agreement for firm peaking service. This peaking service would be a guaranteed source of supply in addition to the customer's DS-1 maximum daily quantities. Monthly demand and fixed charges totaling $3.40 per dekatherm apply to the maximum daily quantities under the DPS-1 schedule.

The DPS-1 schedule has never been used. Furthermore, the Commission finds that it is not necessary now that Pipeline is moving to a demand commodity rate structure. To the extent that suppliers need additional firm service--and are willing to pay demand charges for it--they can obtain such service by renominating their firm demand under Pipeline's new DS-1 rate schedule. Therefore, the Commission terminates the present DPS-1 rate schedule.

C. Peaking Capacity Transfer and Contract Reassignment Service

Pipeline, at the request of its sale-for-resale customers, proposes a peaking capacity transfer service for sale-for-resale customers. The transfer service would have both a permanent and emergency component.

Under the proposal, permanent transfer of capacity will be allowed if a sale-for-resale customer wishes to increase his contract demand and can find another customer or customers who are willing to give up a like amount. Subject to adequate capacity on the line serving the customer in question, Pipeline would allow this transfer through an amendment of the DS-1 contract. The transfer would be permanent.

Pipeline also proposes to allow customers to transfer contract demand among themselves on peak days to better utilize their peak shaving facilities. These transfers would be made on a day to day basis only on days when system peaks were reached. These capacity shifts would be conditional upon adequate capacity in the line serving the customer who seeks to increase its capacity. The transfers would allow the customer facing contract overruns to avoid the occurrence of unauthorized overrun penalties. Pipeline would charge a $150.00 administrative and accounting fee for each day that a transfer is made.

These peaking capacity transfer proposals were made as a result of a request from certain sale-for-resale customers. No customer is required to participate in the transfer of capacity. No party has raised any objection to the proposals. The Commission finds, based on the above evidence, that these proposals are in the best interests of the Company's customers and should be approved.

D. Peak Day Demand Charge Credits

Pipeline incurs demand charges to guarantee minimum supplies to its firm customers on peak days. Those demand charges are collected from those customers on a monthly basis. It is theoretically possible, however, for curtailment to result in a customer not being able to take its full contract demand on a peak day.

Pipeline's curtailment plan is based on the end use to which the customer intends to use gas. It applies "behind the city gate." In other words, when Pipeline curtails its industrial boiler fuel load, it curtails not only the industrial boiler fuel customers buying directly from Pipeline, but also the industrial boiler fuel customers buying from its sale-for-resale customers.

It is theoretically possible that a sale-for-resale customer may be over-contracted for firm supply such that, even on a peak day, that customer's peak day commercial and residential load is less than its guaranteed firm supply. In such a case, the customer would not be able to take its full contract demand because of curtailment of supply to its low priority interruptible customers.

In response to customer requests, Pipeline has agreed to provide a demand charge credit to any customer who is curtailed below his maximum daily quantity on a peak day. That demand charge credit shall be calculated for each peak day by multiplying the unit demand charge by the deficient volume and divided by the number of days in the month that the deficit occurred. The Commission finds, based on the above evidence, that this crediting provision is fair and should be approved.

E. Proposed DFT Rate Schedule

At the request of some sale-for-resale customers, Pipeline has agreed to offer a firm transportation service for sale-for-resale customers. That service would be provided on a revenue neutral basis; the per dekatherm rate for transportation would be the same as the Cost of Service Commodity and Demand Rates applicable under Pipeline's DS-1 tariff.

Under the proposed DF tariff, it would be the customer's responsibility to obtain natural gas supplies and contract for transportation of those supplies to Pipeline's delivery point. Pipeline would redeliver the gas to the customer's delivery point less a 2% reduction for shrinkage.

Pipeline proposes that the customer's transportation accounts be balanced to zero on a monthly basis. Any gas that a customer takes in excess of the amount of gas deliverable to him as transportation gas would be treated as the sales gas under the DS-1 rate schedule, or as interruptible sales gas, or as interruptible end user transportation as appropriate. In the event that the customer delivers more gas to Pipeline than is called for under the transportation agreement, Pipeline would purchase the excess volume at its lowest incremental cost of gas for the month in question. That gas would then be resold either under the WACOG or ISPR program with no impact on Pipeline's profits and no increase in costs to Pipeline's other customers.

No party has objected to firm transportation service. The Commission finds that firm transportation service is essentially a direct substitute for firm sales service. However, there is not sufficient evidence in the record supporting Pipeline's proposal that the cost of service demand charge for this service should reflect the Company's peaking and storage facilities. The Commission is unable to find that the demand charge for sales and transportation service should be the same. The Company is ordered to develop a demand rate for firm transportation service which does not reflect the Company's peaking and storage facilities. This demand rate should be developed when the customer contract demand nominations are finalized. The Commission further finds that without adequate balancing provisions, transportation contracts pose a substantial risk of disruption and uncertainty to Pipeline's system. Therefore, it is in the best interest of Pipeline and all its customers that provisions be made in these contracts for monthly balancing of accounts. Treating over-deliveries as sales to Pipeline at its lowest incremental cost of gas for the month in question creates incentives for transportation customers to avoid over-deliveries and is necessary to protect Pipeline and its WACOG customers from paying inflated prices for over-delivery gas.

Therefore, the Commission approves Pipeline's proposed DFT tariff except that the demand rate shall not reflect peaking and storage facilities. The cost of service demand charge applicable to distribution firm transportation service shall be derived as follows:

$$\frac{\text{\$ Transmission Demand Requirements}}{\text{(12 months) (DFT Maximum Daily Quantity + DS-1 Maximum Daily Quanity)}} = \text{DFT Demand Charge}$$

F. Capital Structure

The Commission finds that, at this time, it is reasonable to use the capital structure of Pipeline. Using the capital structure of Pipeline is consistent with the Commission's decisions to use the capital structure of SCE&G in the last SCE&G electric and gas rate cases, Docket No. 88-681-E, Order No. 89-588, and Docket No. 89-245-G, Order No. 89-1074. It is appropriate to choose the capital structure of Pipeline because it does not incorporate any nonregulated investments. The Commission will continue to monitor the capital structure of Pipeline to determine whether or not it remains the appropriate capital structure to use.

III.

ISSUES RAISED BY THE INTERVENORS

As indicated above, in the application to this matter, South Carolina Pipeline Corporation sought to revise its rates and rate structure, and to revise certain elements of its existing terms and conditions of service, as they apply to its sale-for-resale customer class. Certain parties, however, have intervened in this action to raise issues outside of Pipeline's application.

Specifically, certain sale-for-resale customers have intervened to seek new transportation services, and to seek revisions in Pipeline's terms and conditions of service as they relate to matters not directly related to rates. The South Carolina Energy Users Committee, and certain industrial customers, have intervened to challenge Pipeline's previously approved method of setting rates for industrial service.

In all cases, the issues raised outside the application relate to rates and terms and conditions of service that were previously approved by this Commission and that the Company has not proposed changing.

A. Legal Standards

It is well settled that, where a regulated utility proposes to change its previously approved rates or terms and conditions of service, it has the burden of proof concerning the proposed change. A regulatory agency "bears the burden of explaining the reasonableness of any departure from a long standing practice, and any facts underlying its explanation must be supported by substantial evidence." Columbia Gas Transmission Corp. v. FERC, 628 F.2d 578, 586 n.31 (D.C. Cir. 1979); Public Service Commission v. FERC, 642 F 2d 1335, 1346 (D.C. Cir. 1980). An analogous rule applies where an entity other than the utility proposes a change in the utility's previously approved rates or terms and conditions of service. Therefore, a party seeking a departure from previously approved rates or terms and conditions of service must provide the Commission with an appropriate factual and legal basis to rule in its favor.

B. Interruptible Transportation

Mr. Larry Loos, testifying on behalf of five of Pipeline's sale-for-resale customers, proposes that Pipeline be required to provide interruptible transportation for its sale-for-resale customers. As discussed above, Pipeline has requested approval of a firm transportation service for its sale-for-resale customers.

Pipeline, however, opposes interruptible transportation for resale customers.

The Commission finds, based on the testimony of Pipeline and the Commission Staff, that interruptible transportation service may pose a significant danger to Pipeline's ability to manage firm gas purchases during summer months. As this Commission has found in previous proceedings, specifically Order No. 89-887, Pipeline must purchase minimum levels of firm gas from its interstate suppliers even in summer months when additional interruptible supplies are readily available.

Pipeline must make these minimum firm purchases to protect the reliability of its long term supplies of firm gas. Southern Natural Gas Company (Southern), Pipeline's major interstate pipeline supplier, and other interstate pipelines have a number of "must take" gas obligations. These obligations typically relate to gas that is produced in conjunction with oil production or that must be taken to prevent gas from being lost to producers working adjoining leases. The pipelines must move reasonable quantities of this gas through their systems as system supply gas in all months of the year, otherwise they stand to suffer substantial penalties. Pipeline is the second largest customer of Southern in terms of annual volumes of gas taken. It represents approximately 25% of Southern's throughput. Only if Pipeline behaves as a responsible customer vis-a-vis Southern can Pipeline maintain its guaranteed firm supplies during winter months when they are needed.

In fact, in response to its minimum take requirements, Southern has filed tariffs with the Federal Energy Regulatory Commmission (FERC) imposing a minimum monthly take provision on its customers like Pipeline. The proposed minimum take will equal 15% of the customer's maximum daily quantity. Pipeline would be subject to severe penalties on a monthly basis for failure to purchase this minimum quantity of gas.

As the evidence shows, Pipeline, at present, would not meet Southern's 15% minimum take requirement in most summer months. Making interruptible transportation services available to resale customers would seriously exacerbate this problem. Interruptible gas is generally much cheaper than firm gas in off-peak periods. If interruptible transportation were available, Pipeline's resale customers would have a strong financial incentive to shift a substantial proportion of their off-peak purchases to interruptible transportation contracts. This would reduce Pipeline's summer purchases of system supply gas from Southern further below the proposed 15% level.

Mr. Loos, testifying on behalf of certain sale-for-resale customers, suggests that any problem with minimum take penalties provisions could be resolved in future regulatory proceedings. Specifically, Mr. Loos suggests that Pipeline could be permitted to bring actions at the Commission to recover these penalties from customers. Mr. Loos, however, did not present any evidence indicating that the benefits of interruptible transportation would exceed the amount of the potential penalties that could result.

Furthermore, Mr. Loos did not propose a logical means for determining which customers should be allocated what penalties. The minimum take penalties proposed by Southern are extremely complex to administer and include certain make up provisions and rolling credits for above minimum takes in prior months. These provisions make it difficult to assign responsibility for minimum take penalties conclusively to any single purchaser.

As the record indicates, the sale-for-resale customers suggest that the Commission allow implementation of the interruptible transportation service on an interim basis, at least until such time as the Federal Energy Regulatory Commission renders a decision regarding the tariffs filed by Southern providing for the minimum monthly purchase provisions. Staff witness Stites indicated that in addition to the uncertainty about how FERC might rule, he was also concerned as to the impact that this service would have on the firm customers. The Commission also has this concern. Pipeline witness Kightlinger testified, "We cannot risk further reductions in takes of firm gas by our resale customers and are unable, at this time, to offer them interruptible transportation service." The Commission finds that the record does not sufficiently demonstrate what impact this service would have on the rates and supplies for the firm customers. Because of the insufficient record before the Commission concerning this matter, the Commission hereby denies implementation of interruptible transportation service.

C. Open Access

The Commission finds that it is not reasonable or necessary to order Pipeline to offer transportation services to industrial customers as an "open access" pipeline. There is no evidence in the record that Pipeline has ever refused interruptible transportation to any industrial customer where adequate capacity existed. On the other hand, by allowing Pipeline flexibility in determining when interruptible transportation will be offered, Pipeline has the flexibility required to manage transportation to the best interests of all its customers, should such transportation be required in the future. The Commission finds that there is no reason to order Pipeline to make this transportation mandatory when, under present circumstances, such transportation is freely available and there appears to be no practical necessity for such an order. The Commission is especially concerned about the impact to the firm customers should Pipeline be denied the flexibility to manage transportation on its system at all times.

D. Industrial Rates

Several witnesses testifying on behalf of the SCEUC propose that the Commission abandon its long standing practice of allowing Pipeline's rates to its industrial customers to be set through negotiations with industrial customers. They propose that Pipeline's rates to these industrial customers be set using a cost of service methodology.

a. Prior Orders

What these witnesses propose would be a radical change in the regulatory structure for Pipeline. Pipeline's predecessor company, Carolina Pipeline Corporation, was organized in 1955 and 1956. The Commission approved initial rates for the Company in Order No. 10,391, dated May 22, 1957. In that order, the Commission specifically authorized Pipeline to "contract with industrial customers buying directly from the Pipeline on terms and conditions mutually satisfactory to the respective parties."

That authorization was reaffirmed in Pipeline's most recent general rate order, Order No. 78-179. In Order No. 78-179, the Commission found that a ratemaking approach based on negotiated rates for industrial sales "best takes into account the interest of the public [and] the present projected volatility of revenues from direct industrial sales." The Commission also found that this approach maintained for Pipeline "a degree of flexibility to meet the fluid natural gas situation."

The Commission reaffirmed Pipeline's right to contract directly with industrial customers on Pipeline's system, subject to maximum markups in the form of caps, in Order No. 82-898, dated December 20, 1982.

In asking the Commission to impose a cost of service base ratemaking methodology on Pipeline, the witnesses for the SCEUC are asking this Commission to modify its findings in Order No. 78-179. For the reasons set forth below, the Commission does not modify its findings in that order.

b. Ratemaking Standard

The just and reasonable standard set forth in §58-5-290 of the Code of Laws of South Carolina, 1976, has been analyzed by the courts of this State, and by Federal courts dealing with similar Federal statutes, in many cases. Those cases consistently hold that, under the just and reasonable standard, the Commission is "not bound to the use of any single formula or combination of formulae in determining rates. Its ratemaking function, moreover, involves the making of 'pragmatic adjustment'. . . . Under the statutory standard of 'just and reasonable' this is the result reached, not the method employed which is controlling." Southern Bell Telephone & Telegraph Co. v. Public Service Commission, 270 S.C. 590, 596, 244 S.E.2d 278, 271 (1978) (quoting Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591, 602-03 (1944)).

The SCEUC has suggested that the Commission is now under a mandate to set rates for all natural gas companies using a cost of service methodology. Specifically, the SCEUC refers to Section 2 of Act No. 184 of 1989, codified at §58-5-240(h) of the Code of Laws of South Carolina, 1976 (1989 Supplement), as the basis for this argument.

Section 58-5-240 governs the procedures the Commission must employ, and the deadlines it must meet, in reviewing rate applications. It is the first sentence of §58-5-240(h) on which the SCEUC relies. It reads as follows: "The Commission's determination of a fair rate of return must be documented fully in its findings of fact and based exclusively on reliable, probative, and substantial evidence on the whole record."

SCEUC interprets this sentence as requiring cost of service ratemaking in all cases. But §58-5-240(h) nowhere requires the Commission to set rates using a cost of service formula or any other specific formula. Instead, it requires the Commission, when it enters a finding as to a fair rate of return, to document that finding with specific findings of fact based on evidence in the record. Nothing in §58-5-240(h) indicates that it was intended to limit the methodologies used or considerations that might be taken into account by the Commission in setting just and reasonable rates. Nothing in the statute indicates that it was intended to require cost of service ratemaking in all proceedings under Chapter 5 of Title 58. Nothing in the statute indicates that it was intended to be a legislative repeal of the large and well established body of case law supporting the Commission's discretion in choice of ratemaking methodologies.

To reach the result proposed by the SCEUC, the Commission would be constrained to find that the General Assembly intended by §58-5-240(h) to impose major limitations on the Commission's discretion in choosing and applying ratemaking methodologies. It is only reasonable to assume that, if the General Assembly in fact intended to legislate a fundamental change in the ratemaking law in South Carolina it would have done so directly, in express terms.

Instead, the Commission finds that the intention underlying §58-5-240(h) is to direct the Commission, where it does set rates based on numerically stated rates of return, to fully document that rate of return in its order and to base that rate exclusively on evidence in the record. The Commission finds that this statute is not intended to prevent the Commission from using methodologies that do not involve the calculation of a fixed rate of return. The applicable standard remains that the result reached be just and reasonable regardless of the method used to arrive at it.

c. The Ratemaking Methodologies

The cost of service ratemaking methodology is simply one of a number of ratemaking formulae that are available to the Commission.

The underlying theory of rate regulation is that, to efficiently provide certain utility services, regulated monopolies must take the place of free and competitive markets. The supplier is guaranteed a monopoly, or near monopoly, on service through the issuance of certificates of need and other territorial service regulations that restrict competition. In exchange for this officially sanctioned monopoly, the supplier is required to charge rates which are determined to be just and reasonable by a regulatory body.

In a monopoly market it is impossible to determine exactly the prices that would have been set by competition if there were no monopoly and competitive set prices. Surrogates for competition must be used. Cost of service ratemaking methodologies are among the price setting methodologies that are intended to serve as surrogates for competition. These proxies and surrogate pricing methodologies are used only because competitive prices are difficult to determine where a monopoly exists. The Commission finds that the cost of service ratemaking methodology is not the only ratemaking methodology available to the Commission.

d. The Competitive Nature of Industrial Markets

The Commission has historically allowed Pipeline to set natural gas rates to industrial customers on a negotiated basis. It has done so because adequate competition exists within the industrial fuel markets of Pipeline. Almost without exception, every industrial customer of Pipeline has alternative fuel capabilities. Those customers have equipment installed in their plants which allows them, on very short notice, to switch from natural gas as their source of energy to coal, oil, propane, liquid natural gas, or even wood chips. These customers can, and regularly do swing on and off Pipeline's system depending on competitive pressures from other fuels. Any industrial customer who presently does not have an installed alternative fuel capability can acquire that ability whenever it becomes economically advantageous to do so.

As this Commission ruled in Order No. 89-701:

> In dealing with its interruptible customers, Pipeline does not enjoy a monopoly status as to energy. Its rates must allow it to meet competition from other fuels or it could lose its interruptible market. These different economic realities were reflected in the different pricing mechanisms that the Commission has approved for Pipeline's firm and interruptible service.

The competitive nature of Pipeline's industrial fuel markets is demonstrated in aspects of its pricing mechanisms other than negotiated sales. Pipeline's contracts with its industrial customers begin with a base price which is equal to the WACOG plus the negotiated margin. The contracts further contain an alternative competitive fuel clause mechanism for setting prices when sales cannot be made using the initial pricing mechanism. If a customer's alternative fuel cost is lower than the WACOG plus margin, then the customer may invoke the competitive fuel clause and quote to Pipeline the competitive price Pipeline must meet if the customer is to stay on Pipeline's system. Under the ISPR program, Pipeline is then permitted to assign specific spot market gas or other gas supplies to the contract to meet the competitive fuel costs. Pipeline may cut its margin if that is required to meet a customer's competitive price.

A substantial amount of Pipeline's sales are made under the ISPR program. As the record shows, even in spite of the ISPR program, Pipeline has lost a substantial block of industrial sales due to the fact that in today's market gas cannot compete with coal for customers whose alternative fuel is coal. As the record indicates, Pipeline may yet lose further large blocks of industrial sales if the price of gas falls below the competitive price of Number 6 fuel oil.

The Commission finds that competition exists within Pipeline's industrial fuel markets. The price that Pipeline must meet to make gas sales in the industrial market is set by competition from alternate fuels.

SCEUC and Nucor are proposing that this Commission order Pipeline to charge cost of service rates in competitive markets.

However, because the industrial market would remain a competitive market, the customer could immediately cease purchasing gas whenever cost of service set a price higher than the competitive fuel alternative.

SCEUC and Nucor point out that Pipeline is the only natural gas supplier in many parts of South Carolina. They contend that Pipeline, in fact, has a monopoly on natural gas service and that this monopoly justifies cost of service regulation.

This argument ignores the fact that every product does not represent a separate market. Multiple products form a single market if those products compete as reasonable substitutes each for the other.

The Commission finds that Pipeline clearly has a monopoly as to natural gas purchased by certain sale-for-resale distributors for their residential and small commercial customers. Once these customers choose natural gas for their furnaces, stoves, water heaters or other appliances, they become captive customers. They cannot switch to other energy sources and then back to gas on a month to month basis. Most industrial customers can. As is clearly demonstrated on the record here, if the price of natural gas is too high, Pipeline's industrial customers will buy oil, propane or some other energy source instead. In the industrial market, natural gas is simply one of several alternative fuels which customers may substitute, one for the other, as their needs and interests dictate. For industrial sales, the Commission finds that Pipeline's relevant market is the market for industrial energy sources including competitive fuels, not natural gas alone.

e. Negotiated Rates

In short, the Commission finds that Pipeline's industrial markets in fact are competitive markets. The Commission finds that it is not unjust or unreasonable to allow Pipeline to charge negotiated rates in such a market.

In addition, there are substantial regulatory considerations that further argue against a departure from negotiated rates for Pipeline at the present time. As the record indicates, Pipeline has built its natural gas system and has structured its finances and operations, based on negotiated rates. As the record indicates, many of Pipeline's industrial customers operate plants and other facilities that were already in place at the time Pipeline's lines came to their area. Pipeline's decision to accept the risks and costs of extending service to these customers was expressly undertaken with an understanding that negotiated rates would apply. There is equity in Pipeline's position that because the decision to extend service was made based on negotiated rates, it is unfair now to order Pipeline to charge its customers on another basis.

Furthermore, the evidence on the record indicates that negotiated rates have worked well for Pipeline and its industrial customers. Pipeline itself serves approximately 100 such customers directly from its own system. Its sale-for-resale customers serve countless others. As Pipeline's Chief Executive Officer Mr. Gressette testified, the flexibility that negotiated rates allow has played a significant role in Pipeline's being able to maintain significant volumes of industrial sales in the face of stiff competitive pressures.

The record also shows that Pipeline's ability to provide competitively priced natural gas has been a significant factor in the decision by a number of major corporations to locate in the State. There is uncontradicted testimony by Mr. Gressette to this effect in the record.

The witnesses for the SCEUC suggested that negotiated rates will drive industry away from South Carolina or compel existing industries to locate plant expansions in other areas. But as Pipeline's witness Mr. Harris states, the competitive pressure that lower gas rates in other areas may pose--if any such pressure exists--is simply another element in its competition for industrial customers which Pipeline must meet to maintain and expand industrial load. Under the present rate negotiations, Pipeline has both the freedom and the strong economic incentive to lower its rates to the lowest possible level if necessary to attract new industrial customers or new industrial demand to its system.

The record also shows that Pipeline has managed its competitive industrial sales in a way that has generated significant benefits for its sale-for-resale customers. As the testimony indicates, service to many of these sale-for-resale customers has been made possible only because Pipeline has been able to justify extending lines into their areas based on the year-round demand and anticipated earnings from its industrial customer base. Pipeline has been successful at controlling its costs and rates to sale-for-resale customers. The Company's sale-for-resale margins have not been increased since 1976. Instead, they were decreased in 1978, and are to be decreased again here.

f. Conclusion as to Negotiated Rates

Based on the findings set forth above, the Commission concludes that it is just and reasonable and in the public interest to continue to allow Pipeline to set rates for industrial customers based on the negotiated process.

D. Inclusion of ISPR Sales in Maximum Daily Quantities

Mr. Larry Loos, testifying on behalf of certain municipal customers, proposed that ISPR sales should not be included in customers' maximum daily quantities. The effect of this proposal would be to require Pipeline to terminate all sales under the ISPR program before activating its curtailment plan on days when natural gas demand exceeded available supply.

Pipeline's curtailment plan is the means by which Pipeline determines which interruptible customers will lose gas service first on days when all interruptible load cannot be served. The plan is an end use plan. Under it, customer classes are assigned curtailment priorities depending on a determination of that class's need for gas or the social utility of providing gas to that class of user. For example, an industrial customer using natural gas to fire a boiler would be in a higher curtailment category--and would therefore be curtailed before--a hospital using natural gas for space heating.

The ISPR program is open to all interruptible customers, regardless of whether they are in the lowest or highest priority categories. It is possible, for example, for an industrial customer using natural gas for boiler fuel load to be buying the WACOG gas at a time when a hospital, with a lower competitive fuel price, is buying ISPR gas.

Under the curtailment plan, if curtailment is required, the industrial customer would be curtailed first, regardless of whether it was buying ISPR gas or not. By the same token, the hospital would be curtailed only in the last stages of curtailment regardless of whether it was buying gas under the ISPR program or not. Under Mr. Loos' suggestion, any ISPR sales, even to a hospital or another customer in the human-needs category, would have to be curtailed before the boiler fuel load of an industrial customer buying at the WACOG price could be curtailed.

The Commission finds that an end use curtailment system is reasonable and appropriate. It finds that Mr. Loos' suggestion is inconsistent with end use curtailment and leads to illogical curtailment priorities which are contrary to the public interest. The Commission hereby denies the proposal by Mr. Loos.

E. Hourly Delivery Limitations

Mr. Loos further suggested that the Commission should substantially revise those provisions in Pipeline's tariff allowing it to limit its customers to 6% per hour of their maximum daily contract quantities. Mr. Loos suggests, instead, that the Pipeline should only be allowed to enforce such a standard after having given six months notice to the customer.

The Commission finds that natural gas pipelines must have the ability to regulate customers' takes on an hourly basis to maintain control over their systems. If large customers suddenly withdraw excessive quantities of gas from the system, system pressures can collapse. This can cause a complete shutdown of a large part of a natural gas system. For operational reasons set forth in the testimony, this in turn could result in all customers in an area losing gas service for days at a time.

The 6% limit is a reasonable standard for limiting hourly takes. It allows for substantial flexibility in managing hourly takes even on peak days. Customers ultimately control this limit and can increase it by increasing their maximum daily quantity in renegotiation. The Commission finds that requiring a six months notice period before enforcing the limit would effectively destroy the usefulness of having such a limit. The utility would have to wait out an entire heating season before it could take action against a customer. The Commission rejects the suggested six months notice period.

F. Overrun Penalties and Charges

Mr. Loos suggests that overrun charges and penalties should be credited to Pipeline's cost of gas calculation and not retained by Pipeline.

These overrun charges and penalties to the extent collected are included in Pipeline's service revenues used for ratemaking purposes. Therefore, retention of these charges and penalties does not result in an over-collection of revenues by Pipeline. Crediting these penalties to the cost of gas would result in a refund of these penalties in proportion to the level of the customer's purchases. The Commission finds that refunding these penalties, in whole or in part, to the customers that incur them defeats the purpose of the penalties. South Carolina Electric & Gas Company, for example, represents approximately 40% of Pipeline's sales. Accordingly, the refund mechanism would result in an automatic 40% reduction in any penalties charged to SCE&G. In fact, the unfortunate result of this proposal would be that the smallest customers would be refunded minuscule portions of their penalties while larger customers could be refunded a substantial share. The Commission is extremely concerned that without an appropriate deterrent, such as penalties, situations could arise causing the collapse of the system and the loss of service to the firm customers. Based on the above findings, the Commission rejects Mr. Loos' suggestion concerning penalties.

G. Prior Approval of Emergency Gas Requests

Pipeline has the authorization under its present tariffs to provide emergency gas in excess of contract quantities upon request where a specific customer has a bona fide emergency need for gas. Mr. Loos suggests that emergency gas be provided only with prior approval of the Commission.

Typically, emergency gas is provided because of a specific industrial customer has lost the use of its alternative fuel due to a mechanical failure. Pipeline requires the customer to limit its gas usage to the minimum amount possible and to provide periodic reports by telephone concerning the progress to eliminate the cause of the emergency. It does not, however, charge penalties on the gas. In many cases, the industrial customer is not a direct Pipeline customer but is a customer of a sale-for-resale system.

The Commission finds that it is just, reasonable and in the public interest, for Pipeline to be allowed to provide emergency gas in such circumstances. This serves to avoid plant shut-downs and layoffs. The evidence on the record does not indicate that Pipeline has abused this program in any way. Requests for emergency gas can come at any hour of the day or night. The Commission finds that it would be unworkable, and would sharply limit the utility of the program, to require Commission approval prior to making such gas available. The Commission, therefore, rejects Mr. Loos' suggestion.

H. Compressor Fuel

Pipeline operates compressor stations at several points on its pipeline system. Compressor stations serve two related functions. First, they allow the Pipeline to maintain high throughput at times when customers are putting significant demands on its system, and when its supplier's pressures are low. Second, they allow the Pipeline to store gas at high pressure within the pipeline system. The amount of gas stored within 1,700 miles of pipeline that Pipeline operates, called "line pack," can be increased significantly by increasing the pressure within the lines.

Utilities like Pipeline can use line pack to store gas to ensure that adequate supplies are available at peak demand periods.

Under Pipeline's present tariffs, the cost of compressor fuel is recovered through the WACOG. This occurs automatically. All gas costs, including the cost of gas used as compressor fuel, are included in the WACOG and are recovered in the WACOG rate.

Mr. Larry Loos, testifying on behalf of certain sale-for-resale customers, suggested that there is an inequity in this system. The inequity, he suggests, is that compressor fuel costs are not being charged to customers which do not pay WACOG rates.

Mr. Loos suggests a credit to the WACOG equal to 2% of the volume of gas transported on Pipeline's system. The value of this credit would be computed using the average commodity cost of gas purchased in the month in question.

The Commission finds that it is not appropriate to recover compressor fuel costs from interruptible customers purchasing under the provisions of the Industrial Sales Program. The Commission also notes, as found in Orders No. 89-701 and 89-887, that interruptible sales provide significant benefits to firm customers by absorbing fixed costs, increasing the system-wide proportion of cheaper interruptible gas purchased, and through other means set forth more fully in the orders cited above. Adding compressor fuel costs to these competitive, interruptible sales could inevitably reduce the volume of those sales to the detriment of all customers.

For the reasons stated above, the Commission finds that it is not appropriate to depart from the existing practice of not assigning compressor fuel costs to interruptible transportation contracts and competitive interruptible sales.

The Commission finds that it is appropriate to provide a credit to the WACOG for compressor fuel costs related to firm transportation services. Mr. Ray Kightlinger, testifying on behalf of Pipeline, proposes that a compressor fuel charge be added to all WACOG sales and firm transportation sales on a per dekatherm basis. This compressor fuel charge will be computed based on the actual volume of compressor fuel used during the month in question valued at the WACOG rate. The per unit surcharge would be computed by dividing this amount by the total volume of WACOG sales and firm transportation sales in the month in question. The formula for computing this charge is expressed as follows:

$$\frac{(\text{WACOG, \$/dt})\ (\text{Compressor Fuel Volume})}{(\text{WACOG Sales, dt}) + (\text{Firm Transportation, dt})}$$

The Commission finds that the formula proposed by Mr. Kightlinger accurately tracks the actual volume and value of compressor fuel used for firm sales. The Commission notes that the 2% figure on which Mr. Loos bases his computation is a figure which includes both compressor fuel and shrinkage--shrinkage being the inevitable loss of certain volumes of natural gas as it moves through any pipeline system. Therefore, the 2% figure may overstate the amount of compressor fuel used. For the reasons stated above, the Commission adopts the formula proposed by Mr. Kightlinger.

I. Maximum Rates

The Commission finds that further evidence should be submitted concerning the maximum rates previously approved by the Commission for the industrial customers of Pipeline. The Commission hereby orders that a hearing be scheduled to review these maximum rate levels and to make a determination as to whether or not such rate levels are appropriate and consistent with the pricing methodology approved in this proceeding. The Commission has previously ruled in this order on the use of rate of return and cost of service to set industrial rates; and thus has reaffirmed its long standing policy in regard to Pipeline of allowing negotiated rates as to its industrial customers based on market conditions. Therefore, the Commission will not consider evidence on the issues of rate of return nor cost of service in setting the maximum rates for industrial customers. All parties will be given notice of this hearing at a later date.

IT IS THEREFORE ORDERED:

1. That the findings of fact and conclusions of law contained in the body of this order are reaffirmed.

2. That Pipeline shall charge its sale-for-resale customers a cost of gas demand charge, a cost of service demand charge, a gas cost commodity charge, and a cost of service commodity charge.

3. That Pipeline shall recover its demand charges and other non-volumetric charges imposed on it for gas supply through the cost of gas demand charge.

4. That Pipeline shall recover its volumetric charges for

natural gas supply using weighted average cost of gas mechanisms.

5. That Pipeline shall recover its revenue requirements related to fixed costs, with the exception of its return and associated income taxes, through a cost of service demand charge.

6. That Pipeline shall recover its variable costs, return, and associated income taxes through a cost of service commodity charge.

7. That a cost of service commodity charge of 7.53¢ per dekatherm shall be applicable to all firm sale-to-resale customers, interruptible sale-to-resale customers, and firm transportation service to resale customers until further order of the Commission.

8. That the demand charge for firm transportation service to sale-for-resale customers shall not include peaking and storage facilities.

9. That Pipeline shall charge its sale-for-resale customers a cost of service demand charge adequate to collect the sum of $10,280,002 per year until further order of the Commission.

10. That Pipeline shall compute the per dekatherm amount of the cost of service demand charge based on the customer's recontracting for new maximum daily quantities and contracting for firm transportation volumes.

11. That the effective date of the rates and other changes in Pipeline's terms and conditions of service shall be for service rendered on and after November 1, 1990.

12. That Pipeline's firm sale-for-resale customers and firm industrial customers are ordered to contract for new maximum daily

quantities, and for firm transportation quantities, in writing, to Pipeline within forty-five (45) days of the date of this order; firm industrial customers are ordered to contract for new maximum daily quanities, in writing, to Pipeline within forty-five (45) days of the date of this Order for the purpose of renominating gas supply contracts with interstate suppliers.

13. That Pipeline is ordered to recalculate its cost of service demand charges on a per dekatherm basis and to supply its sale-for-resale customers with the resulting demand charges within seventy (70) days of the date of this order.

14. That Pipeline's sale-for-resale customers are ordered to provide final nominations of contract demand and firm transportation service to Pipeline within ninety (90) days of the date of this order.

15. That Pipeline is ordered to terminate rate schedule DPS-1.

16. That Pipeline is ordered to institute a peaking capacity transfer service for sale-for-resale customers as set forth in its proposed tariffs.

17. That Pipeline is ordered to provide peak day demand charge credits as set forth in its proposed tariffs.

18. That Pipeline is permitted to make a distributor firm transportation service available to its sale-for-resale customers pursuant to the provisions of this Order.

19. That Pipeline's revised tariffs and terms and conditions of service, as set forth in Exhibit B to the Application in this

proceeding, and amended to comply with the provisions of this Order, are hereby adopted.

20. The Commission finds that, for reasons set forth in the body of this order, ordering South Carolina Pipeline Corporation to provide interruptible transportation service to its sale-for-resale customers would not be in the best interests of the Company nor its customers.

21. The Commission finds, for reasons set forth in the order, that allowing Pipeline to continue to set negotiated rates for industrial customers does not result in rates which are unjust or unreasonable, but instead provides benefits to all Pipeline's customers and to the Company.

22. The Commission finds, for reasons set forth in this order, that it is not just and reasonable to require Pipeline to include ISPR sales in maximum daily quantities, to provide six (6) months notice before holding customers to hourly delivery limitations; to credit customers with overrun penalties and charges through credits to the WACOG; and to require Pipeline to receive prior approval before making emergency gas available to customers.

23. The Commission finds that Pipeline should make credits to the WACOG for amounts of gas used as compressor fuel for firm transportation sales according to the formula set forth in this order.

24. The Commission finds, for reasons set forth in the order, that it is not just and reasonable to require a blanket 2% credit to the WACOG to account for compressor fuel use of firm

transportation service.

25. The Commission finds that it is not in the best interests of Pipeline's customers to require Pipeline to make credits to the WACOG for compressor fuel used for ISPR interruptible sales and interruptible transportation service.

26. That the cost of service demand charges and the calculations used to derive the charges are to be submitted to the Commission for approval prior to implementation of the charges.

27. The Company is required to revise and file for Commission approval within thirty (30) days from the date of this Order its Rate Schedules, Tariffs and General Terms and Conditions applicable to sale-for-resale customers and the General Terms and Conditions along with the Gas Cost Adjustment Clause applicable to industrial customer contracts to conform with the provisions of this Order.

28. The Company shall maintain documentation in sufficient detail to enable the Commission to monitor gas cost demand charge recoveries; the Company shall submit, on a monthly basis, the calculations used to derive the gas cost demand and commodity charges to be billed its customers.

29. That this Order shall remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION

VICE Chairman

ATTEST:

Executive Director

(SEAL)